

AUG 1948

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EUROPE

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1. GERMANY: Importance of Berlin industrial production--US Ambassador Murphy has been informed by the US Military Government in Berlin that a strict embargo on the sales of industrial goods from western Berlin to the Soviet Zone is not in effect, and that the British are still allowing a certain amount of such trading to continue. Murphy says, however, that even the present loose controls are having a telling effect and that US officials expect these controls to cause a shutdown of critical industries in the Soviet Zone within 60 days. Murphy stresses the fact that the western zones also are largely dependent upon western Berlin for numerous critical industrial items, and that, since the imposition of the blockade, more than 400 tons of these items have been air-lifted back to the US Zone.

French non-support of occupation forces--Murphy also reports that a major stumbling block to French participation in the Joint Export Import Agency results from the fact that the French Army of Occupation is "living off the land" in the French Zone while the US and the UK are maintaining their Forces of Occupation at their own expense. Murphy says that General Clay and General Robertson have taken the position that the US-UK Zone cannot supply the French Zone unless the French rectify this practice, but that the French seem unprepared to do so until 1 January 1949. Murphy says that both the US and UK delegations feel that a firm understanding with the French is now necessary to prevent an indirect subsidy of the French Army by US funds for an indefinite period.

2. YUGOSLAVIA: Poor prospects for agreement on Danube--US Ambassador Cannon, chief of the US delegation to the Danube Conference in Belgrade, thinks that there is only a slight possibility of any serious discussion of the US draft proposals for a Danube convention and that the conference may come to a breaking point "fairly soon." Cannon expects strong verbal clashes between the East and West, with the USSR and the US as the chief protagonists.

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